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C O N F I D E N T I A L ANKARA 005332

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DEPT ALSO FOR EUR MATT BRYZA AND STEVE HELLMAN

E.O. 12958: DECL: 09/12/2016
TAGS: [ENRG](#) [EPET](#) [PREL](#) [TU](#) [GR](#) [AZ](#) [IR](#) [RU](#)
SUBJECT: TURKISH ENERGY MINISTER PROMISES ACTION ON
SOUTHERN GAS CORRIDOR

REF: ANKARA 4935

Classified By: ECONOMIC COUNSELOR THOMAS GOLDBERGER FOR REASONS 1.5 (B
AND D)

¶1. (C) Summary: In a September 10 meeting, DAS Matt Bryza and Energy Minister Hilmi Guler agreed to the following action steps to advance the southern gas corridor across Turkey to Europe:

- Guler committed to quickly seek a bilateral meeting with Azeri Minister of Finance Samir Sharifov to dispel uncertainty on Shah Deniz I, build confidence on Shah Deniz II, and start the process of concluding a transit agreement for Azeri gas volumes across Turkey to Greece.
- Bryza will press IEA Deputy Director William Ramsay to accelerate plans to convene multilateral meetings including companies and customer countries for the southern Mediterranean corridor and Nabucco for parties to lay out their plans. Guler said he was eager to participate in multilateral meetings.
- Bryza committed to supporting Turkey in getting its fair share in commercially viable transit arrangements which address Turkey's specific concerns on Iran and assure that Turkey would not pay a higher price than "downstream" customers' less transit.
- Bryza will reiterate his recommendation to Azerbaijan that they form an internal GOA working group to implement President Aliyev's commitment to accelerate development and export of Shah Deniz II throughout the hesitant bureaucracy.
- Bryza agreed to continue working on a Trans-Caspian Pipeline from Kazakhstan and Turkmenistan.
- Bryza committed to recommend formation of a U.S.-Turkey-Iraq working group to develop natural gas in northern Iraq for egress to Turkey at Ceyhan for processing.

Bryza and Guler also agreed that when President Bush and Prime Minister Erdogan meet in Washington on October 2, they should touch on agreement to work together on gas from Azerbaijan, Iraq, and elsewhere in support of the southern

gas corridor to Europe. End Summary.

Investors need assurances on Azeri Gas

12. (C) Underscoring the centrality of Turkey to a viable southern gas corridor, Bryza stressed that he wanted to insure that Turkey would obtain satisfactory commercial benefits in a transit regime. Focusing on the importance of Azerbaijan as a gas supplier to Europe, he emphasized that the huge upstream investments needed to develop Shah Deniz future phases would require firm agreements between consumers and producers. This meant that Turkey had to be "open for business" in a transparent and not overly onerous or obstructive way. Bryza noted that BP/Statoil's newest projections show Shah Deniz Phase II yielding 15 BCM p.a. in 2012 and 40-50 BCM p.a. in 2016-2020, more than enough to fuel the southern Mediterranean route to Italy and a serious start for Nabucco. Despite assurances to him from President Aliyev, Bryza said the Azeri "bureaucracy" was still resisting designation of Shah Deniz Phase II gas for export and waiting for clearer signals from Turkey on a commercially viable gas transit regime. Moreover, Bryza stressed that there were preliminary Azerbaijan-Turkey issues that needed to be cleared up before a broader multi-party gathering that would include end users as well as companies. Bryza said he would go in two days to Paris where he would discuss the IEA as a convener of such a gathering. He also said that Aliyev agreed to set up a working group within the Azeri bureaucracy to move forward on development of Shah Deniz II for export to Europe.

Obsession with Iran

13. (C) As he has in past meetings, Minister Guler responded with a tour d'horizon of other actors and possible sources of gas. He asserted that Azerbaijan was not the problem, and that Turkey - as "big brother" - and Azerbaijan would support each others' interests. Guler stressed that the problems lay with Russia -- which is pressing Turkey on Blue Stream and seeking to tie up more low-priced Central Asian gas to sell at a huge margin to Turkey and Europe -- and Iran. He complained that Iran is openly flirting with Europe, and that Austrian OMV was going too far in negotiating directly with Iran. Guler asserted that Iran was not reliable with respect to quantity or quality. He said Nabucco partners must get together to make a decision on source of gas for the project. Guler stressed that in no way could Turkey condone paying a higher price for gas from Iran than European customers at the other end of the pipeline through Turkey. Therefore, Turkey advocated establishing a joint stock company for developing the project or marketing the product so Turkey would have both a share in the revenues and information on contract prices and conditions. Noting that recent negotiations with Iran were unsuccessful, Guler said that Turkey sought "reciprocity" with Iran: Turkey would be prepared to consider offering transit of Iranian gas if Iran offered transit of Turkmen gas. Iran refused.

14. (C) Bryza said the U.S. position on energy investments in and agreements with Iran was very clear. We cannot support Iranian gas to Europe and we cannot support Turkmen gas via Iran, which the Turks have been pushing for in meetings with Iran. We remain firmly opposed to doing energy business with Iran while we accelerate our efforts to isolate Iran on its nuclear enrichment program. Guler responded that the U.S. and Turkey would "agree to disagree" on Iran and Turkey would seek help from the Europeans to push Turkey's quest for Turkmen gas via Iran.

Please do more on Trans-Caspian and Iraq

15. (C) Guler asked for more support from the U.S. on a Trans-Caspian Pipeline (TCP) and in working together to develop natural gas in northern Iraq. Asserting that the U.S. was overly fixated on Azerbaijan, he asked to hear more from the U.S. on TCP. Guler also called for U.S. support on using the Kirkuk-Ceyhan right of way for egress of natural gas from northern Iraq. He said he had great interest in developing LNG processing at Ceyhan to reach a variety of world markets, including the U.S. Guler said that he and Erdogan had just visited Ceyhan the week before to inspect potential sites for an LNG facility and a refinery. He asserted that development of Iraqi gas would "solve our problems" with Iran and Russia and give us a "reshuffled hand of cards".

16. (C) In response, Bryza agreed to recommend forming a U.S.-Turkey-Iraq working group to move forward on development of gas in northern Iraq for egress to Turkey, either for LNG processing or for pipeline transit to Europe. He suggested that the U.S. could support Blue Stream volumes going south to Ceyhan for processing as a solution meeting everyone's needs, but not shutting in Caspian production, which would in turn travel west to Europe across Turkey.

17. (C) On TCP, Bryza said that Vice President Cheney and other officials had been publicly and privately pressing Kazakhstan on both gas and oil links to Baku. He said that one reason for focusing on Azerbaijan first was to get critical infrastructure in place first to help Kazakhstan vis a vis the Russians by providing a commercially viable option for Kazakh gas to reach European markets. Bryza also mentioned the USTDA pre-feasibility study on TCP from Kazakhstan. With respect to Turkmenistan, Bryza asked Turkey to put pressure on President Niyazov, noting that our efforts had not been highly successful.

"Billiard" Approach

18. (C) Guler offered a "billiard" approach. He said he would have no expectations for U.S. support on Iran, but would press the Europeans on a joint approach to Iran and support for Turkey's "reciprocity" of transit access. He promised to meet quickly with Azerbaijan. He welcomed U.S. help with Nabucco partners and would welcome an IEA convened multilateral meeting. Guler repeated that progress on Iraq gas development and TCP would catalyze gas transit to Europe. When Bryza reiterated the importance of Azerbaijan as a key, attainable first step to seed transit to Europe, Guler said that Bryza could tell the Azeri President and other high officials that Minister Guler was ready to meet Finance Minister Samir Sharifov and that he sought the most advantageous commercial terms possible for Turkey's "brothers in Azerbaijan." Guler insisted that Turkey sought only a "fair" deal on transit and sales of Azeri gas, and understood that it should not overplay its commercial hand. Bryza said he understood Guler's concern ("I do not want Iran to follow the same path") that a special Azeri transit arrangement would not be available to Iran. They agreed that a southern gas corridor from Azerbaijan, Iraq, and elsewhere should be briefed as a topic for discussion when President Bush and PM Erdogan meet on October 2, but Guler insisted that this should be put in the context of a long-standing discussion rather than a new initiative.

Comment

19. (C) Guler stressed his candor to Bryza, often asking his note-taker to stop writing. He expressed a particular personal commitment to the vision of development of Ceyhan as an energy hub with Azerbaijan playing a key role. Because this Sunday afternoon encounter in casual dress had followed a series of meetings over time, the discussions were warm and friendly. Guler acted more decisive than in previous meetings and stressed that he was not "horse-trading"

(although he does horse-trade with Russia and Iran). Guler believes that he has struck a strategic bargain on an action plan with his key partner and ally the U.S. Only progress on agreed action steps will indicate if the jello has really started moving across the table. Bryza separately briefed Turkish MFA officials who promised to support the action steps.

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